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first decisions of the new Parliament, therefore, when it met on the 19th of December, was to adopt the constitution of 1929. Dr. Renner, in his New Year's Eve broadcast to the Austrian people, emphasized that the laws issued by his Government had been dictated by the force of circumstance and must now be verified by the people's representatives.

There were compelling reasons for having a coalition. In times of great emergency it is a healthy democratic instinct that brings political parties together to work in the common cause. Britain resorted to coalitions in both World Wars, and the First Austrian Republic had done so in the first two years of its life. The problems facing the country in 1945 were as difficult, if not so fundamental, as those that presented themselves in 1919. There was still an acute shortage of food and fuel. Although the country had gained a measure of unity since the recognition of the Central Government by the occupying Powers, the zonal frontiers remained, and each Power had special rights in its own zone. Moreover, seven years as part of the German Reich had left Austria no contacts of her own with the outside world. While his Government was still in process of formation, Leopold Figl summed up its main tasks as ensuring the necessities of life for the people, creating a unified Austria, and restoring her relations with foreign countries, especially with her neighbours. As gradual progress was made in the solution of these problems, a fourth objective of increasing urgency emerged which held the two main parties together in joint endeavour: the signature of a State treaty that would bring an end to the occupation and re-establish Austria as a sovereign State.

Though these exacting tasks were sufficient to justify the existence of a coalition, there were other reasons for it which arose out of the nature and previous record of Austrian democracy.

The elections had shown that the two main political parties were closely matched in strength. The probable alternative to an alliance between them, therefore, would be tense political strife, which, in the circumstances of national emergency,

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as a political and economic fragment, industrially top-heavy, and cut off from essential supplies, she was condemned to an uphill struggle for self-sufficiency. In 1938, just when she had achieved a measure of success, she had to submit to incorporation in an empire, the whole economy of which was moulded ruthlessly to the needs of war, without regard for the traditions or individual claims of its component parts. In 1945, as a small unit, now conscious and even proud of her identity, she was set the task of rebuilding her independent existence and freeing herself from the traces of economic subservience.

To accomplish this third task Austria needed an economic plan that was based on the requirements of the future and the existing facts. Clearly the Nazi neglect of agriculture and the damage done to forests must be put right. A hydro-electric power scheme based on the country's own long-term needs was required. And a programme for industry had to be formulated which took account of Austrian tradition and craftsmanship and any features of the Nazi legacy that were of permanent value. The decision must be made as to what modifications were required in the heavy installations of the war economy in order that they might occupy a permanently valuable place in an economic structure adapted to the needs of peace.

It was difficult to form a correct judgement on this last point in the exceptional circumstances of the post-War years. Not only were world markets strongly influenced by demands for reconstruction programmes. On the one hand, American generosity made available in Austria much more investment capital than would normally have been the case. On the other hand, Russian confiscation deprived the country of many industrial products and one of its main natural resources. It was obviously wise for the Austrian Government to aim at independence of American support. Yet such an objective was very difficult to attain, so long as the oil-fields and many industrial installations remained under Russian control, and no one knew how long the control was to continue. This unknown factor was a serious obstacle to the formation of any

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being about 68 per cent better than for the first half. This was due partly to the fuel crisis in January and February, but it represented also a fundamental change for the better.

Such briefly was the state of the Austrian economy shortly before Marshall Aid began.

A long-term programme for Austrian economic recovery could have only one aim: to achieve self-sufficiency on a lasting basis. Yet the statement of such a simple objective in 1948 was a very small contribution to the solution of the problem. The situation at the time was so critical and exceptional as to make the quiet pursuit of a long-term plan neither desirable nor practicable. Austria's first requirements were food and the raw materials and equipment necessary to rebuild her industries and her export trade. These needs had to be met at all costs and to a large extent took precedence over the consideration of priorities for the future. The future itself was so uncertain as to make too much regard for it foolish. There were three major questions which no one was in a position to answer, however confidently he might speculate. How long was Russia to control Austrian oil? How soon was Austria to regain her political independence? And what kind of Europe would she find herself in when she was free? The enigma of the future is the whole world's burden. But at present it centres round the division of mankind into two great camps, and those on the dividing line between them are especially conscious of it.

In these circumstances the natural tendency to take the short-term rather than the long-term view, to prefer economic tactics to economic strategy, could be justified in some measure on rational grounds. Certainly, in drawing up an ERP[1] plan for Austria, the American authorities, on the one hand, and Austrian statesmen and economists, on the other, took full account of existing circumstances and of the urgency of present claims, sometimes inevitably at the expense of long-term considerations and of the well-conceived ideas of theoretical economists.

[1] European Recovery Programme.

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185 Some of the points that carried weight with those responsible for planning Marshall Aid for Austria deserve attention.

The geographical position of the various industries played a large part in determining their position in the recovery programme. Neither the Americans nor the Austrians wanted to see American capital invested in the Russian zone. An overwhelming proportion of it was therefore allocated to the three Western zones. This course was made easier by the fact that Austrian industrialists had the same attitude, and a transference of industry from Lower Austria and Vienna to the West had already begun, in so far as new developments and reconstruction programmes made such a movement possible. The labour question, so far from presenting an obstacle to this tendency, helped to accentuate it. The transference of population from East to West has been one of the characteristics of the post-War years, due partly to war damage in Vienna, but much more to the fact that refugees from East Austria did not always return, and to the large number of German-speaking refugees from Eastern Europe that crowded into the Western provinces.

A second consideration that had great influence with the planners was the extent to which industries were easy to control and would fit conveniently into so vast a project as the recovery programme for Austria.

The Americans were in closest contact with the industries in their own zone. Here economic supervision had been their responsibility since 1945. They were aware of the needs, the potentialities, and the standard of efficiency of the various concerns, and in many cases had already done a great deal to set them on their feet. It was a matter of understandable pride to the American element that its own zone should play a leading part in the recovery of the country as a whole.

As a general rule large enterprises were the most suitable recipients of Marshall Aid. The United States Congress had not voted billions of dollars in order that an army of administrators and inspectors should travel round Europe considering the needs of small concerns. The purpose was to make a

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decisive contribution to a continent's recovery, and this could best be done by giving aid to the major industries of every country concerned. This fact alone was of great significance for the Austrian economy, with its tradition of skilled craftsmanship and its preponderance of small businesses.

In 1946 and 1947 the Coalition Government agreed on the nationalization of the banks and a number of key industries. These included coal, iron and steel production, the mining and smelting of other metals, the nitrogen works at Linz, certain sections of the machine and light-metal industries, the manufacture of locomotives and rolling-stock, the electrical industry, and the production of electric power. There were a number of reasons why both parties approved so large a measure of nationalization. The railways, the post office, and the sale of salt and tobacco had been nationalized under the Habsburgs, and there were compelling arguments for the extension of State control at this stage. Some of the industries now nationalized had been seriously damaged during the War. Some were in process of development on a grand scale but were incomplete. Others again were essential to the national economy but could not be run at a profit. The capital and over-all planning necessary to deal with the situation could not be provided by private enterprise, but part of it at least might be provided by the State. Whatever was done must be part of a co-ordinated plan. The aluminium works at Ranshofen, for example, would become a white elephant unless the necessary electric current were available. These considerations brought the People's Party into accord with the Socialists and Communists.

The effect of nationalization was to bring a large section of the Austrian economy under unified control. The nationalized industries were of vital importance to the country. Their success had become the immediate concern of the Government. They therefore had a strong claim to substantial support, and their privileged position ensured that they would get it. No industries were easier to control or would fit more naturally into the national recovery programme.

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439 185 A further point that weighed with the planning authorities was the state of the European and world markets at the time. The main demand was for investment goods with which to carry out reconstruction programmes. Few countries had much to spend on anything but bare necessities. The prices of primary goods were therefore high, while secondary goods were relatively cheaper. The pre-War Austrian economy, with its emphasis on consumer-goods production, would have been in a weak position in the post-War world, and for the time being the war-time transformation proved a blessing. Pig-iron was one of the main exports in 1947 and 1948, and iron goods headed the list of exports in 1948.

185 Closely connected with the question of markets was the problem of the large industrial plants left behind by the Nazis. Some held that the heavy industries endangered the country's economic future, and that Austria's true destiny was to concentrate on the development of her natural resources and on the craftsmanship and design for which she was already famous. Money spent on the development of heavy industries would in the long run be wasted, because the Linz works could not hope to compete with the industries of the foremost industrial countries, which were better placed from the point of view of transport and raw materials and had greater scientific and financial resources behind them. Others maintained that Austria's iron and steel industry should be concentrated in its traditional home. Donawitz in Styria already had the impressive plant of the Alpine Montan Company. It was closer to the ore of the Iron Mountain and to such coalfields as Austria possessed. Any capital available should be spent on the development of Donawitz. The country did not require and could not afford two different centres.

The position of the nitrogen and aluminium works was different. The whole output of artificial fertilizer could, if necessary, be absorbed by the home market. In the case of aluminium production, the determining factor was the availability of electric current, and the potential supply in Austria was more than sufficient.

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In making up their minds with regard to the Nazi legacy, the planners were influenced by all the various considerations that have just been described: the iron and steel works and the nitrogen plant at Linz, the aluminium works at Ranshofen were all in Western Austria and in the American zone; they were large nationalized industries, and their products were in great demand under post-War conditions. In addition, they were modern, they represented a large capital outlay, and they employed between 10,000 and 15,000 men. Closing them down, therefore, in deference to any long-term economic theory, could not seriously be considered. In determining the lines on which they should be developed, however, the future balance of the Austrian economy would have to be borne in mind.

Austria benefited under the European Recovery Programme in three different ways: through 'direct aid', 'indirect aid', and the use of the 'counterpart fund'. Every year the United States Government allocated to Austria a sum of money in dollars to cover the import of essential goods against dollars from the Western hemisphere. This was known as 'direct' or 'unconditional aid'. In special cases, dollars allotted in this way could be used for obtaining goods from countries not taking part in the recovery programme—for example, coal from Poland. Secondly, Austria was granted drawing rights to import goods from other European countries with which she had an unfavourable balance of trade, on the understanding that the country concerned would obtain payment in dollars from the United States. This was known as 'indirect' or 'conditional aid'. Its object was to stimulate trade between the participating countries and enable them to resume commercial contacts with their traditional suppliers and customers. Thirdly, goods brought into Austria with the aid of ERP dollars were paid for by the recipients in Austrian schillings, which were handed over to the Government and paid in to a special 'counterpart' account with the National Bank. The schillings that accumulated in this way could be used for two purposes only: productive investment for the benefit of the Austrian economy

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and measures for the stabilization of the currency. Proposals were put forward by the Austrian Government, but required the approval of the Economic Co-operation Administration, the highest administrative authority controlling the European Recovery Programme, which had its headquarters in Washington.

Under this whole system the greater part of the dollars made available by the United States were used to provide Austria with essential food and raw materials. At the same time a large proportion of the schilling equivalent of the dollars could be devoted to long-term projects that would strengthen the country's economy.

In dealing with the recovery programme in detail, it will be convenient to divide up the Austrian economy under eight main headings and treat each of the following separately: (i) agriculture, (ii) forestry and dependent industries, (iii) heavy industries, (iv) other manufactures, (v) fuel and power, (vi) minerals not covered under (iii) and (v), (vii) communications, (viii) the tourist industry. The division is rough and arbitrary, and the headings imply some overlapping, but it is an over-simplification convenient for dealing with a large and complicated subject in a limited space.

As has been seen, Austrian agriculture was in a lamentable state when Marshall Aid began. If food production could be increased and Austria became less dependent on imports, a considerable contribution would be made to improving her trade balance. Yet for several reasons agriculture was not a branch of economy that could easily be improved by foreign assistance. The great majority of the farms were small. The peasants were conservative and difficult to influence. Two of their main problems were lack of labour and the low level of agricultural prices, and these were problems that had to be solved by the Austrian Government itself.

The target was set, however, of restoring production to the pre-War level by 1953. Seeds, farm machinery, and feeding-stuffs were to be supplied. Above all, a much greater use of artificial fertilizer was to be encouraged. Before the War

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Germany used thirteen times as much per acre as Austria; Holland sixteen times as much. There was great scope, therefore, for increased use. Austria now had her own production plant, and the price of imported fertilizer had scarcely risen half as much as food prices. The programme suggested that by 1953 over four times as much should be used as in 1937, and even then the economic optimum point would nowhere near have been reached.

The significance of Austria's forests is shown by the fact that between the Wars they provided a livelihood, directly or indirectly, for about one-sixth of the population. Lumber exports amounted in value to over 10 per cent of the country's total and, together with the exports of the dependent paper and cellulose industries, just about paid for Austria's most important food imports. After the War the forests were suffering from the excessive felling that had been carried out systematically during the past few years and from the fact that it had taken place in the more accessible areas. This double injury could only be put right by a policy of restraint extending over a number of years: by reducing cutting, and by concentrating on the less accessible, and therefore the less economic areas. In consequence the fundamental cure was, to a great extent, beyond the scope of the recovery programme. But the timber, paper, and cellulose industries had one feature in common: their equipment was very largely out-of-date and inefficient. Judged by modern standards, the methods employed in forestry and the timber industry were still primitive. The sawmills were mostly on a very small scale and could not be compared in efficiency with large up-to-date enterprises in other countries. The consumption of coal in Austrian cellulose factories was about one ton for every ton of cellulose produced, whereas a good Swedish factory used less than a third of the amount. Much of the equipment in the paper-mills was so obsolete that the competitive power of the Austrian paper industry in world markets was being undermined. Here ERP resources could be of great assistance, and funds were allocated for the introduction of modern equipment and modern methods into all three industries.

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Austria's heavy industries included, in addition to the Nazi legacy, the iron and steel works at Donawitz and the important Steyr–Daimler–Puch Company, which produced tractors, automobiles, motor-cycles, cycles, and ball-bearings. Some of the general considerations have already been mentioned that caused the planning authorities to look favourably on the Linz and Ranshofen enterprises.[1] Apart from the fact that Donawitz was not in the American zone and that the Steyr–Daimler–Puch Company was not nationalized, these considerations applied to all the heavy industries. Furthermore, for a number of reasons, each of the industries required the expenditure of a large amount of capital in order that its potentialities might be utilized fully for Austria's benefit.

In the first place, the concerns that had come into existence during the War were still incomplete when the War came to an end. Secondly, heavy industries were amongst the main targets for Allied air attacks, and some of them were very severely damaged. The nitrogen works at Linz were hit by about 800 bombs, and the main Steyr–Daimler–Puch plant at Steyr was almost completely destroyed, the total damage suffered by the Company's installations in the Steyr and Graz areas being estimated at over 220 million marks. After the War the destructive work of bombs was completed by systematic dismantling and confiscation. A large quantity of vital machine-tools was seized, and at Donawitz the steel-rolling plant was taken down and removed by the Russians, before the British occupied Styria. The third reason why capital expenditure was required was the need to transform and develop the various industries so as to comply with the future demands of the Austrian economy. The process of adaptation from war-time to peace-time production itself involved large-scale replacement of equipment. Even more important were the measures required within the heavy industries to restore the health and balance of the country's economic life.

If Austria was to maintain large plants for the production of iron, steel, and aluminium, it was at least desirable that the processing of these metals should be carried sufficiently far to

[1] [Cf. category 116, pp. 102–103 — Analyst]

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provide the country's metal-finishing industries with the sheets, rods, and other forms of metal that they required. In this way the producer-goods industries would contribute to the success of the consumer-goods industries, which would become independent of imports and would give Austria's traditional skill and craftsmanship the opportunities they required. The benefit to the whole economy is indicated by the fact that a given weight of finished aluminium products has on an average five times the value of a similar weight of raw aluminium. An Austrian member of Parliament pointed out in 1947 that no skill would be required in Austria to buy 10,000 wrought-iron candlesticks, but that it might well be difficult to get hold of a handful of nails. Such a state of affairs would in the long run be inexcusable in post-War Austria, and it was one of the duties of the E.R.P. planners to make it impossible.

The Hermann Goering iron and steel works in Linz, which became the Vereinigte Österreichische Eisen- und Stahlwerke (United Austrian Iron and Steel Works) and are usually known as VÖEST, were planned for a total output of a million tons of iron and steel a year. Before the War ended five of the six blast-furnaces were completed, while the annual production of steel only amounted to 250,000 tons. It was important that the output of steel and sheet-metal should be greatly increased. With this end in view a large outlay of capital was planned for the installation of steel production plant and rolling-mills at Linz and for replacing the rolling-mill at Donawitz. The ERP long-term programme aimed at decreasing the value of pig-iron exports from $9 million to $5 million within four years and at simultaneously increasing the value of rolled steel products from $25 million to $34 million. At Ranshofen finishing works were planned that were capable of handling 15,000 tons of aluminium a year, a figure based on the estimated home consumption.

The nitrogen works at Linz were to be developed and adapted so as to produce 40,000 tons of sulphuric acid a year and 100,000 tons of ammonium sulphate. This would give to their products greater variety and competitive power in world

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markets, ammonium sulphate being more valuable and more suitable as a fertilizer for certain climates than ammonium nitrate.

The Steyr–Daimler–Puch Company was to be assisted in its programme of concentrating on products of special value to the national economy. The production of motor-cycles, cycles, and ball-bearings was continued, but at its main Steyr works the chief output consisted of diesel trucks, tractors, and omnibuses. An arrangement was made with the Italian Fiat Company by which Fiat passenger cars were to be assembled at Steyr, but no attempt was made to embark on the highly competitive passenger automobile production.

This comprehensive programme for the heavy industries involved a very large expenditure, and it was not surprising that in 1949 and 1950 nearly half the counterpart funds allotted for industrial purposes were devoted to the iron and steel industries alone.

Compared with the very significant help given under the European Recovery Programme to the heavy industries and the paper industry, Austria's other manufactures, most of which produced consumer goods, were, with the exception of textiles, largely neglected. Before the War about 75 per cent of Austria's industrial workers were employed in concerns in which there were less than 100 employees. Large enterprises played a bigger part in the country's post-War economy, but one of the reasons why the consumer-goods industries were neglected was that they were mostly still on a comparatively small scale. It was therefore difficult to organize assistance for them, and at the same time they lacked effective champions. Another reason was that they had, on the whole, suffered less from war damage. Apart from textiles, the manufactures that came off best were the electrical industries, which had lost a high proportion of their equipment from dismantling and had subsequently been nationalized. The ERP plan for Austria set out to raise the production of heavy industries in four years to 160 per cent of the 1937 level, while the target for consumer-goods industries was only 110 per cent of the 1937

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figure. By the autumn of 1951 the small crafts, which employed nearly as many people as industry, had received only 14 million schillings from the counterpart fund, which was only 0·4 per cent of the total.

There was no branch of the Austrian economy in which the need for capital investment was greater than in fuel and power. Nor was there any branch to which the allocation of available funds would be the subject of less controversy. The Austrian Republic's shortage of coal, which had always been serious, was more acute than ever, owing to the development of the iron and steel industry. And Poland and Czechoslovakia, Austria's traditional suppliers, were now in the Russian orbit, and charged excessive prices for such coal as they were prepared to deliver. At the same time the country had vast potential sources of hydro-electric power, which only required capital for their development. It was most important that the development should take place both to economize consumption of coal and to satisfy the growing demands for electric current of Austrian industry and the Austrian people.

Austria's oil-fields were her main resources in mineral fuel, but, being under Russian control, they did not fall within the scope of the recovery programme. Her coal-mines, which produce 95 per cent lignite, could only satisfy between 25 and 30 per cent of her requirements in 1948 and 1949. As a result of forced production during the War and neglect of new development, the coal was difficult and expensive to work, and the output per miner was only three-quarters of the pre-War level, although the miners' own record had been excellent.

The production of hydro-electric current increased steadily during the War, until in 1944 it had more than doubled. In 1945, owing to the serious disorganization that accompanied the end of hostilities, output fell off considerably, but between 1945 and 1948 it rose from 2·51 billion kilowatt-hours to 4·45 billion. The steam-driven power-plants, so important for the maintenance of winter supplies, had suffered severe damage during the War, especially at Linz, and were not back in full production by 1948. Meanwhile the growing importance of

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electricity to the Austrian economy was shown by the fact that domestic consumption per household had increased by 60 per cent between 1938 and 1947. In 1947, also, Austria exported nearly a quarter of its total current production and stood second amongst European countries as an exporter of electric power.

Substantial ERP funds were allocated to the coal-mines for new development and modernization of equipment with the object of increasing productivity. Aid was also given in the reconstruction of the damaged steam-driven electric power-stations, and in the building of new stations in the neighbourhood of the lignite fields. But the bulk of assistance in the sphere of fuel and power was naturally devoted to the development of hydro-electric resources.

Austria's total potential hydro-electric power production is estimated at not less than 30 million kilowatt-hours a year, more than five times the present output. The possibilities were already realized in some measure before the end of the nineteenth century, and development between the Wars was help up mainly owing to lack of domestic and foreign capital on the large scale required. The European Recovery Programme offered a great opportunity, which was not likely to recur, and at the Paris Conference which considered the Marshall offer in the summer of 1947 the Austrian delegation began at once to consider proposals for electric power development. By the following year a general plan had been drawn up that aimed at doubling production in the ten years starting with 1948.

ERP support was limited to four years, but provided for the generous allocation of counterpart funds both for the completion of plants under construction and for the initiation of new works. The programme covered projects in all of the six provinces under the Western Allies, but was confined to them. The great plant planned at Ybbs-Persenbeug on the Danube in Lower Austria, with a potential output of a billion kilowatt-hours a year, had to be left out, because it was in the Russian zone. Major projects in Western Austria included those on the Ill in the Vorarlberg, on the Drau in Carinthia, and on the Enns, the Inn, and the Danube in Upper Austria. The new

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works begun at Braunau on the Inn and at Jochenstein on the Danube were undertaken in collaboration with Western Germany. Most important of all were the power-stations dependent on water stored in great mountain reservoirs, such as those at Achensee in the Tyrol and at Kaprun in Salzburg. This type had the great advantage of being able to reserve its major output for the winter months, when hydro-electric current was in short supply. If they were developed on a sufficiently large scale, it would be possible to reduce the number of steam-driven plants, and so economize coal.

Of all the hydro-electric projects in process of construction, Kaprun was the most significant for the Austrian economy as a whole. Three great reservoirs were to be created at different levels by the construction of a series of dams, the top two reservoirs being connected by a conduit through the mountains nearly twelve kilometres long. When the work is completed, the annual production of current will be 620 million kilowatt-hours, of which 460 million will be produced in winter.

After iron, oil, and coal, the most valuable of Austria's mineral resources at present being utilized is magnesite. The magnesite industry did not suffer seriously from the War, and after a temporary setback, owing to the coal and power shortage in 1946–7, had regained the pre-War level of production by 1948. The greater part of the magnesite produced was exported, some of it to the United States. As a dollar-earner, therefore it was important that the efficiency of the industry should be maintained and its production increased. The bulk of the capital required for modernization was provided by the industry itself, though an allocation was made from counterpart funds as well.

Austria also has small deposits of copper, lead, zinc, and subsidiary metals. Under normal conditions their development could hardly be justified economically in competition with the world's main sources of supply. But for two reasons a good deal of attention has been paid to them since the War: they provide materials essential for the important electrical industry, and Austria has not had the foreign exchange necessary to

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Austria was clearly not in a position to pay for her essential needs without foreign help, and it was of vital importance that she should not be subjected to economic strain that would threaten her political stability. The United States Government therefore decided to continue its assistance, though on a reduced scale. Direct Aid amounting to $70 million was promised in two instalments for the financial year 1952–3. The release of funds from the counterpart account was made conditional on the Austrian Government taking adequate measures to balance the budget and check inflation.

At the same time a growing body of expert and informed opinion in Austria was becoming convinced that the situation demanded a new outlook and a new policy. Austrians had acquired the habit of looking abroad for their economic salvation and blaming the Allies for the lack of a State Treaty. But the continuance of the occupation, which was the result of the conflict between Russia and the West, was Austria's heavy share of a burden borne by many countries. Against it could at least be set the sustained moral and material support of three of the occupying Powers. In the circumstances the only healthy attitude was to take energetic steps to strengthen Austria's economy and free it from dependence on foreign help that was being progressively reduced and could not last indefinitely. Such a policy would not have been feasible in the early post-War years, but conditions had so much improved after four years of Marshall Aid that there was now no real alternative for a people with pride in its past and faith in its future.

There were three aims about which there was little controversy: to stabilize the currency and prices, to encourage private saving, and to strengthen the competitive power of Austrian consumer goods in world markets.

There had at first been good reasons for the policy of controlled inflation on which the Austrian Government embarked after the War. But the reasons became progressively weaker the longer the policy was pursued, and, as has been seen, the fifth Price-Wage Agreement in 1951 had serious effects on

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Austrian exports. The continuous devaluation of the schilling discouraged private saving. It also prevented stabilization of prices, because producers, who had to count on increasing costs of production, were reluctant to part with their goods. To restore faith in the schilling strong measures were required.

Private savings must be encouraged owing to the country's need of capital. The investment rate of the Marshall Aid years could certainly not be maintained, but in a highly competitive world Austria's industrial plant would have to be modernized and renewed, and hydro-electric development and the electrification of railways were vital to her future. International loans and foreign investment could be relied on to some extent, if conditions remained stable, but a high proportion of capital needs must be provided by the Austrian people themselves. In addition, the possibility of saving without loss would be an incentive to effort and increased efficiency.

Opinions differed as to the extent to which the consumer-goods industries had been neglected since the War, but there was general agreement that they deserved more attention in future. Austria's characteristic industrial asset is the quality, taste, and variety of her craftsmanship and the finished goods it produces. As the world returns to normal, the demand for these specifically Austrian products will grow and foreign countries' requirements of investment goods will be satisfied where they can be most cheaply produced.

Two further aims were subjects of considerable controversy: to economize drastically in State expenditure and to encourage competition in Austrian economic life.

On the one hand, it was maintained by the Right-Wing parties and the majority of professional economists that the budget should be rigidly examined and controlled, the whole administration overhauled, and the number of civil servants reduced. These measures, some held, should be combined with giving greater scope to the competitive elements in industry and reducing the influence of vested interests of all kinds. This last point of view was greatly stimulated by the issue in December 1951 of a Report by Mr. H. W. Johnstone

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of the Economics Division of the American High Commissioner's Office. This document, which was entitled 'The Restraint of Competition in the Austrian Economy', strongly criticized the various forms of restraint, such as cartels, political associations, and organized group interests, and recommended the education of public opinion on the merits of a competitive régime.

On the other hand, the Socialist Party, while accepting the need for economy and self-help, was opposed to any reduction in social services; preferred government, to private, investment; was more conscious of the evils than of the merits of competition, and stressed the dangers of unemployment rather than the dangers of renewed inflation.

In November 1951 Dr. Franz Nemschak, Director of the Austrian Institute for Economic Research, emphasized the significance of Austria's economic problems for the country as a whole, and recommended that in working out a solution the Government should take the advice of experts rather than allow themselves to be influenced by sectional interests. He deplored particularly the tendency for economic policy to be determined by considerations of party politics.

Dr. Nemschak's warnings and recommendation were justified. By giving full consideration to the views of independent experts, it might well have been possible to agree on an economic policy for the country. As has been seen, there was common acceptance of some of the main objectives, and on the controversial points a degree of compromise was possible. To aspire after the ideal expert solution, however, is a tendency characteristic of democracies and one that is almost invariably disappointed. The circumstances in which party considerations finally confused the issue were not free from an element of accident.

Members of the People's Party held the three key Ministries of Finance, Trade, and Agriculture. The second instalment of the Party's reorganization, following its defeat in the presidential election, took the form of replacing the three Ministers in question in January 1952. Dr. Kamitz, the new Finance

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But the Austrian attitude on the subject cannot be attributed to the influence and example of any individual. It lay in the logic of Austria's position as a small and defenceless State that her people should pin their hopes on the support and guarantees provided by a world organization such as the United Nations. As far back as 1922 Monsignor Seipel had accepted the help and financial supervision of the League of Nations. In April 1946 the Austrian Government was invited to send representatives to the last meeting of the League as observers, and the President of the Assembly spoke of Austria as 'one of the most solid pillars of our organization' and referred to the specially active part she had taken in all the League's work.

Austria's belief in international co-operation has been revealed in a number of ways: through her support of specific projects with limited aims, her interest in European unity, and her enthusiasm for the United Nations and the work of the Specialized Agencies.

The full utilization of Austria's hydro-electric resources would only be possible on an international basis, as their potentialities greatly exceed her maximum needs, and there would be no point in her investing in projects beyond her own requirements, without international arrangements guaranteeing consumption. In December 1952 a meeting took place at Innsbruck between representatives of Austria, Germany, France, and Italy. It led to the establishment of an International Power Survey Company for co-ordinating hydro-electric developments in Austria with those of the three other countries.

Another project in which Austria has shown great interest is the plan for a Rhine–Main–Danube Canal, which would link the North Sea with the Black Sea. It involves improving the navigability of the Main and the construction of a canal from Bamberg on the Main to Regensburg on the Danube. The economic and political implications of the plan are considerable, and its immediate advantages for Austria obvious. At present her overseas exports are shipped from Trieste or the

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1



German North Sea ports, and in either case the railway freight charges add substantially to the cost of transport. The opening up of a water-way to the sea would be of the greatest value.

Austria's participation in such plans as these is due mainly to her needs and natural endowments as a land-locked Alpine country. To a large extent her interest in all international movements is the result of her size and situation. Yet Austria's internationalism cannot be attributed solely to material factors. The warmth and spontaneity of her people's response reflect their temperament, their humanity, and their political and religious convictions.

The Austrian attitude towards European unity has never been in doubt. In October 1945, before the European movement had been fully launched by Churchill's great speeches at Brussels, The Hague, and Zürich, Leopold Figl, who was not yet Chancellor, wrote of Austria as a 'germ-cell' in the reconstruction of the European community of peoples. In one of his first speeches to the National Assembly the following December he spoke of the vital importance of instilling into the rising generation of Austrians an 'all-European democratic way of thought'. Austria was subsequently represented at the Congress of Europe at the Hague in 1948 and at meetings of the European Parliamentary Union. Members of the Austrian Parliament have also attended meetings of the Consultative Assembly of the Council of Europe as observers since the autumn of 1951, and have taken part in its committee work. The only reason Austria has not become an official member of the Council is that her Government felt it inadvisable to take such a step, so long as the occupation continued.

One indication of the importance attached by Austria to friendly relations with other countries has been the many good-will visits abroad undertaken by leading statesmen since the end of the War. Dr. Gruber himself has been a tireless traveller. There has also been a rapid development in the Austrian foreign service since the Allied Council permitted the exchange of diplomatic representatives early in 1946. Within a few years the size of the service as a whole and the number of

435 preventing a disastrous decline in the buying power
465 of the broad classes of the population. The unavoid-
652 able adjustment of certain distortions in prices as well as the entire stabilization of wages and prices was undertaken on the basis of the economic, budgetary and credit policy. This applied also to the coordination of prices of specified agrarian products which, in the general development, have to a large extent re-
457 mained below an adequate level. These adjustments were
652 intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment program without intensifying inflation. The promotion of capital accumulation, thereby encouraging the influx of new savings capital to the banks and institutions, and the systematic consolidation of capital reserves of the insurance companies and of the social insurance institutions will particularly in Austria, gain special importance in the coming years. As a consequence of the elimination of the counterpart funds and of the relative slow reflux of the means invested, resulting in limited possibilities of rediscount with the National Bank, the necessarily long-postponed replacement of the long-term and expensive bank credit to the capital investment market has been initiated. Expressed in other words this means that the reconstruction of the capital basis of economy, by opening the cheaper sources of financing offered by the capital market should facilitate new short and middle-term credits and consolidate long-term credits which had previously been granted (especially investment and reconstruction credits). It should also contribute to an improved competition of Austrian products on the world markets through an adequate reduction of one of the chief factors of the basic cost price, i.e., credit procurement.

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652 All measures of an economic-political nature which are taken, however, are not applied in a purely dogmatic way. They are effected within the ideology of the two big political parties of Austria and thus of the Federal Government which is sustained by the coalition in power. It might be explained that the economic political measures described in the following survey are approved in principle by both of the leading political parties, though it may be that they differ somewhat as to the means and methods of reaching determined aims of political economy.

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433 The problem of increasing economic productiveness receives particular attention from the Austrian Federal Government and the Austrian Productivity Center. Labor and management are equally represented in this

Center in order to safeguard and coordinate professional interests. The steady increase of economic productiveness is intended to be reached by fostering rationalization of managerial dealing and plants as well as by cutting down the cost of production. This too would promote Austrian export trade with an eye to reaching full compensation of export and import figures and thus ultimately to achieve an active balance of payments. In the matter of this problem it should, however, expressly be emphasized that such balance of payments--inasmuch as it has been achieved by new equipment and modernizing of Austrian industry initiated during the last years--can be reached only by and by. It was at a rather recent time that investments could be made in Austria (1950). Consequently, an efficient and satisfactory result from such investments, especially from the big investments, may not be expected before 1954 or 1955. Austria should be allowed, therefore, a reasonable interval of recuperation to overcome the handicap of its very precarious situation. Nor should it be overlooked that Austria, as a country which is strongly dependent on a wide range of imports, is extremely sensitive to all fluctuations and developments on the world markets. Each change on those markets of necessity and automatically has repercussions on the price level in the Austrian domestic markets.

It is certainly a matter of the highest importance for the further development of Austria that the chief foreign markets should be opened for the sale of Austrian products, and especially those which are the result of intensive development. The Marshall Plan having become obsolete, it will be possible in this way only to realize the adjustment of the balance of payments. A balance of payments would, without strongly hurting the social structure of the country, open the way towards the gradual abolition of trade barriers and restrictions, to the alleviation of foreign exchange impediments, and, thus, to a progressive integration of Austrian economy into that of the Continent and beyond that to the world at large. The extension of the foreign trade volume and the increase of the invisible export, chiefly the foreign tourist and transit traffic, are a means of realizing foreign exchange reserves required for financing Austrian imports and the maintenance of an adequate satisfactory volume of employment. The persevering energy and intrepidity of both of the responsible big parties of Austria have been leading the way towards the political and economic consolidation

totaled only 454 million schillings. In accordance with the original "Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid t[illegible] sudden changes in theprice and wage structures.

To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

With the progressing consolidation, resulting from ERP procedures, the Austrian Federal Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

1) Counteract inflationary tendencies according to timely needs;
2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;
3) Bring prices gradually in line with world market levels;
4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

wage level. This goal will be achieved:

a) by means of an appropriate currency policy, primarily through a gradual unification of the exchange rate system (surrender of multiple exchange rates and adaptation of the schilling rate to the international purchasing power parity);
b) restriction of compensation trades;
c) adjustment of the price structure and adaptation of wages according to agreements of political and economical interest;
d) increase of labor productivity (i.e., the produced quantity of goods per capita or working hour) to achieve a suitable relation between the costs of raw materials, accessories, plants, machineries and manpower, and the proceeds of goods and services.

Following the development of domestic price and wage dynamics the exchange rate of 10 schillings to 1 United States dollar, established by the Allies at the end of the war, became untenable in the early part of 1948. Despite the exceptional exchange rate to gain a larger share of export trade, compensation deals, made mostly at higher rates of exchange, were tolerated. Later, exporters were permitted to sell part of their foreign exchange holdings, which they were allowed for imports of raw materials, at an officially fixed premium. A private super premium was usually added, depending on import productiveness.

This resulted in a complicated system of exchange rates which varied from deal to deal. In addition, goods imported under ERP terms, insofar as they were not reckoned at domestic price levels, were sold at officially fixed prices. Thus the difference in the exchange relation between commercially imported goods and ERP imported goods became an import subsidy financed with ERP means, favoring partly the consumer and partly the dealer or the processing manufacturer. It delayed the shifting of needed imports to commercial channels and furnished in certain sectors the impression of an export ability which, however, was solely the result of the cheaper purchase price commodities imported through the ERP.

It was clear that this system of differentiating exchange rates had to be replaced by a "uniform" rate of exchange. The international devaluation wave sweeping Europe during September 1949, however,

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311 In other fields too there were noticeable losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

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454 Reconstruction of a productive national economy could be successful only if the economic forces specifically characteristic of the country were activated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made

to bring the capital goods industry to the highest technical level. The direction of this policy is determined not only by the high demands for reconstruction within the country itself, but also by the rapid tempo of industrialization of European and non-European regions. If Austria is to be able to compete on the world market after the end of the ERP, it must not only close the gaps in its production but also provide for further undisrupted technical developments. It is clear that Austria has to divert annually from its national income a sufficiently high quota for investment (now about 21 per cent with the help of the ERP) in order to keep pace with other developments. 185 652 433 454

In view of the time limitations and the gradual reduction of Marshall Plan aid, it will be the principle of the investment policy from 1949-50 on to give primary consideration to those big investments (for example, in energy and iron-ore industries) whose development was pushed by high capital expenditures and to have them achieve an economically and technically sound condition, if possible, within the period of the duration of the ERP. Basically, the counterpart funds are used for those investments from which payments are expected on the shortest terms so that, along with big projects, numerous smaller and medium sized projects which increase exports get under way. In disposing of counterpart funds, however, those enterprises which demand ERP-financing are forced to cover part of their planned investment out of their own funds (profits, private credits and various deductions).

The main items of the investment policy for future years, excluding the arrangements of the so-called "Long-term Program," have been fixed by the Reconstruction Program 1950-52, which was presented to ECA in the summer of 1950 and amended in the late fall of 1950, owing to price alterations. Based on the 1949 price level, the investments for the three year program had been set originally at 24 billion schillings. This figure was revised to 27 billion schillings in accordance with the change in prices and wages which occurred in October 1950. It was the aim of the partly transferred investments to create such conditions as to obtain an increase of production of domestic raw materials, to save foreign currency and to set at the disposal of the domestic economy those raw materials which can be found to a suitable extent in the country itself. As part of this plan, for example, the construction of four more power plants will be started, the output of coal shall be increased to 6 million tons from the present 4 million

tons, the production of iron and steel to 1 million tons annually, the output of rolling mills to approximately 750,000 tons. Further increases in production will be provided in: bauxite mining, aluminum production, production of cellulose, paper and pulp. In the same manner the export capacity of nitrogen plants (Stickstoffwerke in Linz), one of the most important producers of foreign currencies in the Austrian economy, will be increased by 50 per cent. In the chemical industry additional investments will make it possible to start production of sulfuric acid and phosphate fertilizer. The single projects will be discussed in detail in another connection.

b) The renovation and rationalization of the primary industries.

The Austrian government holds to the principle (insofar as none of the theoretical considerations in the preceding chapter interferes) that in building up its program of investments cheap primary products lower the production costs in the finishing industries and this allows them to compete in the sharp competitive battle with other highly industrialized European countries. Certain focal points of investments have been formed, encompassing especially coal, iron and steel, ore mining, and the smelting industry as well as electrical power. These are mainly nationalized enterprises. For investment purposes in the years 1948 and 1949 they received a total sum of 1,627.4 million schillings out of public funds. Of this amount, 958.5 million schillings were reconstruction credits, 481.6 million schillings were capital payments of the Federal government, 31.2 million schillings were federal loans and 156.1 million schillings were credits guaranteed by the state. In 1950 a sum of 30 million schillings was provided in state capital contributions; in the same year (fall of 1950) the funds released from the ERP for the above-mentioned branches of industry totaled 133 million, 283 million and 418.5 million schillings used essentially as follows.

(1) Investments in coal-mining.

During the war the coal mines (predominantly brown coal in Austria) suffered greatly in their development because of overproduction and neglect of needed renovation as well as delay in planned expansion. Within the scope of the Marshall Plan the necessary renovation and rationalization of operation, mining improvements, shaping of daily operations, deep mining,

9: Rothschild EKl Austria EKl

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[For informed speculation on the political and economic factors likely to affect social planning and probable trends in post World War II, Austria, see category 116, pp. 93-104.]